

~~SECRET~~

25X1

5 February 1965

DCI BRIEFING
FOR THE HOUSE APPROPRIATIONS COMMITTEE

BRAZIL

- I. The government of President Castello Branco continues to exert moderate, effective leadership and to make gradual progress toward restoring economic stability.
 - A. Although serious political and economic problems persist, Castello Branco has thus far succeeded in preventing them from becoming serious threats to stability.
 - B. He enjoys public confidence and the support of the armed forces and has gained congressional approval of much-needed legislation.
 - C. Castello Branco's term expires in March 1967 with national elections scheduled for November 1966.
- II. The government plans to seek passage of a basic political reform law that would result in a more representative electoral system and a reduction in the number of major parties from the present unmanageable number of 13 to three or four.

~~SECRET~~

25X1

~~SECRET~~

III. Under the two-year (1964-66) economic austerity program the regime has had some success in curbing the rampant inflation inherited from the Goulart and earlier regimes.

- A. The inflation rate in 1964 was held to 87 percent, well below the 140 percent expected had Goulart remained in power.
- B. A further substantial reduction in the inflation rate is likely in 1965, although the government's goal of 25 percent may be overly optimistic.
- C. Measures have been taken to strengthen the tax system and reduce federal spending at all levels.
- D. External economic assistance in 1965 will approach \$1 billion with the US providing approximately half of this amount.
- D. This year's harvest of coffee and other major crops promises to be among the largest in Brazilian history.

IV. A comprehensive agrarian reform program has been enacted along with major reforms in housing, education, banking, and other fields.

~~SECRET~~

~~SECRET~~

- V. President Castello Branco is expected to succeed in maintaining stability during the foreseeable future but his administration faces pressures from several sectors.
- A. The persistent rise in cost of living is creating public unrest particularly among urban labor.
- B. Although the government's emergency power to investigate subversion and corruption has expired, Castello Branco remains under some pressure from civilian and military "hardliners" to carry out additional purges.
- C. The regime has effectively reduced the threat of subversion but potential threats to stability remain.
1. Extreme leftists such as Leonel Brizola and other exiles continue plotting.
 2. The Communist Party, which had been thrown into disarray by the revolution of last April, is regrouping and beginning to reassert its influence, particularly in labor and among students.

~~SECRET~~

25X1

~~SECRET~~

3. As the campaign for next year's presidential election gains momentum it will tend to have disruptive political effects; a leading contender, conservative Governor Carlos Lacerda, already has begun to arouse antagonisms by his attacks on administration policies.

25X1

~~SECRET~~